

State Retiree Benefits Trust Board of Trustees
Minutes of the Meeting of
December 7th, 2017
as approved 4/5/18

Call to Order:

A meeting of the State Retiree Benefits Trust Fund Board (“SRBTF Board” or “Board”) was held on Thursday, December 7, 2017 at 9:06 in the Crane Conference Room in the Offices of the State Treasurer on the 12th floor of One Ashburton Place, Boston, Massachusetts.

SRBTF Board members present for some or all of the meeting were: Chair Nicola Favorito, Mr. Joseph Connarton, Ms. Jenny Hedderman, Ms. Catherine Moore, Mr. Terrence Finn, Mr. Michael Tow, and Mr. Frank Gervasio. A quorum being present in the meeting room, Mr. Michael Tow and Mr. Terrence Finn participated remotely via conference call in accordance with the Board’s policy and the Office of the Attorney General’s guidelines on remote participation. All votes were by roll call.

Also present for all or part of the meeting were:

Attorney Brian Fox of Murphy, Hesse, Toomey & Lehane LLP (“MHTL”);

Mr. Paul Todisco and Mr. Francesco Daniele of the Pension Reserves Investment Management Board (“PRIM”);

Mr. Jeffrey Moyer of SRBTF;

Ms. Howard Merkowitz of the Office of the Comptroller (“CTR”);

Mr. David Pottier & Jennifer Kane of the Massachusetts Department of Transportation (“DOT”)

Mr. Marc Waldman of the Town of Wellesley; and

I. Approval of the October 5, 2017 Meeting Minutes

The Chairman began with the approval of the minutes of the October 5, 2017 meeting.

After discussion on a motion made by Mr. Connarton and duly seconded by Ms. Hedderman, the Trustees took the following action by roll-call vote.

VOTED: To approve the minutes of the October 5, 2017 Board Meeting as presented.

Mr. Connarton—Yes

Mr. Gervasio-- Yes

Ms. Hedderman—Yes

Mr. Finn—Yes

Mr. Favorito--Yes

Michael Tow joined the meeting at 9:07.

The Chair asked if the Board had any objection to first taking up the MassDOT funding issue. There being no objection, the Chair turned invited Mr. Pottier to speak and noted the supporting materials that were distributed prior to the meeting, including an accounting of payments process between June 2015 and September 2017.

II. MTA Transfer

A. MTA OPEB Transfer

Mr. Pottier thanked the Chair for the invitation and introduced himself as the CFO of the Massachusetts Department of Transportation and his colleague Jennifer Kane as the Payroll Director. By way of background Mr. Pottier indicated that MassDOT has had challenges with incorrectly categorizing employees otherwise eligible for payments from the assets that had been transferred from the SRBTF and during FY '18 some employees were reimbursed from funds of the MassDOT general account pending receipt of funding from the SRBTF. MassDOT has reconciled these accounts in preparation for a meeting of the board.

After reconciliation is complete, MassDOT will need a transfer of \$742,000 from the SRBTF that will be used to reimburse the previous general fund transfer. This amount will also cover any remaining claims in FY18.

In response to a question from the Chair, Mr. Pottier stated that the general fund transfer was made to allow for additional time to review accounts and prepare information for this Board. In response to a question from Ms. Hedderman, Ms. Kane confirmed that all the payments out to claimants went through HR/CMS pursuant to the ISA adopted for this purpose. Mr. Pottier confirmed that the Comptroller's office was aware of the reason for the general fund transfer and had approved it, and asked for the emails he brought to be part of the official record. The Chair approved and stated that this would be emailed out to the board after the meeting. The Chair then asked if there were any further questions on the FY18 transfer, and hearing none moved on.

B. Procedure to Approve Future MTA Transfers

The Chair asked if they had an amount in mind for future transfers, and Mr. Pottier responded that at this time \$430,000 should be adequate to fund FY19, this request will come later. In response to a question from Mr. Connarton, Mr. Pottier acknowledged that the amounts being requested were decreasing and stated that he would submit full documentation of these claims with the FY19 request. The Chair stated that the Board would need documentation of each request for audit compliance. The Chair asked about historical transfers- the original amount was \$77 million but only \$75 million was received due to the time lag between the agreement

and transfer. Mr. Pottier committed to providing a full account of transfers in a follow-up email, but indicated that the variance was accounted for by payments to MassDOT employees who took advantage of the 2015 retirement incentive.

The Chair asked Mr. Fox to outline the legal requirements and the potential procedures for the board to approve future transfers. Mr. Fox noted that the DOT would be considered a plan participant and under the Board's policies and procedures DOT could make withdrawal requests directly to PRIM. Under this procedure, the only reason PRIM could deny this request is due to insufficient liquidity. DOT is a participant under Section 24 (b), and the Board has adopted a policy that allows such participants to make the request directly to PRIM. Requests for withdrawals of state OPEB funds would go through the Board. He recommended that the Board receive and review documentation of the need for any withdrawal by DOT so that the Board can fulfill its responsibility to monitor and supervise. In response to a question from Ms. Hedderman, Mr. Fox stated that is appropriate for the Board to review these requests. The Chair asked if there were any further questions on this issue, and hearing none moved on.

The Chair asked Mr. Todisco what would be needed to effectuate the requested transfer. He indicated PRIM would need a letter from the chair to Ms. Jennifer Cole of PRIM. Mr. Moyer noted that the Board had previously voted on a transfer for \$1,000,000, and the Board would need to reconsider that motion considering the adjusted request. The Chair confirmed this with Mr. Fox, and invited a motion to reconsider the previous transfer approved at the October 5th meeting.

On a motion made by Ms. Hedderman and duly seconded by Mr. Connarton, the Trustees took the following action by roll-call vote.

VOTED: To reconsider the vote in favor of transferring \$1,000,000 in OPEB funds to Mass DOT made on October 5th, 2017.

Mr. Connarton—Yes
Mr. Gervasio-- Yes
Ms. Hedderman—Yes
Mr. Finn—Yes
Mr. Tow— Yes
Mr. Favorito—Yes

The Chair then stated that the board should vote to approve the updated amount as discussed in the meeting this morning.

On a motion made by Mr. Connarton, and duly seconded by Ms. Hedderman, the Trustees took the following action by roll-call vote.

VOTED: To approve the transfer of \$742,000 to MDOT for retiree health insurance benefits.

Mr. Connarton—Yes
Mr. Gervasio-- Yes
Ms. Hedderman—Yes
Mr. Finn—Yes
Mr. Tow— Yes
Mr. Favorito—Yes

Catherine Moore arrived at the meeting at 9:24.

The Chair then invited the board to discuss what sort of process they would want for future transfer requests: such as review after the fact, approval by the board after requests, or some other procedure? In response to a question from the Chair, Mr. Todisco stated that some participants occasionally make withdrawals, especially if there funding plan is pay-as-you-go. Once completed, transfer notifications are sent through to Mr. Moyer and forwarded to the Chair. Ms. Hedderman stated that she would like to vote on these transfer requests given the special circumstances present, and if MassDOT would need to transfer from the general fund in the future that they should request it from the SRBTF instead. Mr. Pottier stated that this request was unique since they had to reconcile accounts, and in the future they should be able to make more timely requests from the SRBTF.

The Chair asked if there are any further questions or discussion on this matter. Hearing none, he proposed that MassDOT should submit future requests with appropriate documentation, after which the board will review at the next upcoming meeting and if circumstances require a special meeting can be scheduled. Mr. Pottier stated that this would be acceptable to MassDOT.

On a motion made by Ms. Hedderman and duly seconded by Mr. Connarton, the Trustees took the following action by roll-call vote.

VOTED: To approve the review and approval process proposed by the Chair for future DOT OPEB transfers.

Mr. Connarton—Yes
Mr. Gervasio-- Yes
Ms. Hedderman—Yes
Mr. Finn—Yes
Mr. Tow— Yes
Ms. Moore—Yes
Mr. Favorito—Yes

Mr. Pottier thanked the board for its attention in this matter.

Mr. Pottier and Ms. Kane departed the meeting at 9:30.

III. OPEB Valuation

The Chair proposed moving on to discussion of the OPEB valuation. No objection having been heard, he invited Mr. Merkowitz to speak on the issue.

Deputy Comptroller Howard Merkowitz briefed the board on the highlights of the recently completed 2017 OPEB Valuation. The Comptroller's office contracts with AON Consulting to conduct an OPEB valuation on the Commonwealth's liability on retiree benefits.

Mr. Merkowitz indicated that because of the new standards issued in GASB-74 the discount rate for liabilities changes going forward, the lower rate reflecting current AA municipal bond rates. He went over the various impacts on the liability calculations and highlighted the discount rate change. The new liability is around \$20.3 billion, which is an increase of \$3.1 billion over the previous year. The liabilities remain mostly unfunded other than the tobacco settlement money coming in, the FY17 reduced the percentage coming in to the fund to 10% which has come in during November. The percentage requirement in law for FY18 is 60% and FY19 is 70% but will likely be reduced again by the budget. This liability will start appearing on the balance sheet of the Commonwealth according to new accounting standards. This liability will be disclosed in FY18, GASB-75 standards are being drafted right now.

The Chair asked for any questions, asked if there are any updates from Ms. Moore on the benefit side. There are changes with retiree benefits that will affect the liability but are not reflected in this valuation. The rate of increase in cost of benefits will go down according to new standards. Healthcare is cyclical and cost increases can vary dramatically.

Mr. Merkowitz departed at 9:47am.

The board having considered these matters, the Chair proposed to move back to the proposed course of the agenda.

IV. Investment Report

Mr. Daniele gave the market update. The 3rd Quarter was strong, and despite the frequent weather and political storms affecting the United States and the world, the overall economy is little changed. Economic indicators are still mostly strong, equity markets continue to move higher, to new records, while bond yields remain low and inflation is absent. National employment measures, automobile sales, retail sales, and home building statistics all exhibited anomalies in the quarter, but are expected to rebound. More important, the September 2017 quarterly GDP growth came in at 3%, annualized, beating expectations of 2.5% and only slightly below the 3.1% reported in the June 2017 quarter, which was revised upwards. The consensus GDP forecast for the year remains at approximately 2.1%, up from 1.6% reported last year.

PRIM believes that their carefully constructed portfolio is appropriate for this environment, and is performing well even after having systematically de-risked over the past five years. Periods like this can last, but they also believe that this is not a good time to be taking on more risk. Asset allocation study is being planned, and will have more to say on this in the coming months.

Mr. Todisco reviewed PRIM's performance. The SRBT Fund returns reviewed were net of fees, versus the PRIT fund performance which are gross of fees. The 1-year return of 12.9% versus 11.0%, 3-year 7.6% versus 6.9%, 5-year 9.2% versus 8.1% and 10-year 5.9% versus 4.9%. Since the fund's inception in 2001 it achieved a positive 7.3% return versus the benchmark of 6.7%. As of October 31st, 2017, the combined SRBT Fund assets were \$1.41 billion and had earned 12.9% for the calendar year.

Mr. Tow agreed that the market is currently in a bubble and asked for more details on PRIM's asset allocation process. Mr. Todisco replied that PRIM is currently reviewing their asset allocation with their consultant, NEPC. As noted earlier, PRIM has been systematically de-risking the PRIT Fund portfolio by reducing exposure to global equities, i.e., U.S., international developed, and emerging markets equities, and reallocating those assets to other less risky portfolios that are not correlated to equities. They will not be doing a full liability analysis this year, but given the Commonwealth's unfunded pension liabilities, PRIM's investment strategy will not likely change dramatically. He doesn't know when the NEPC report will be available, but noted that discussions are underway right now.

Mr. Waldman noted that there are not currently any actively employed municipal officials on any of PRIM committees or board, and given how much municipal money is under control by PRIM this should be examined.

The Chair noted PRIM's recent real estate investment in Central Square, Cambridge was covered in [The Boston Globe](#).

V. Operations Report

Municipal Outreach

Mr. Todisco reported that Old Rochester Regional School District is working toward completion of its application, but they did not submit the required declaration of trust. Because of legal requirements they will need to prepare it and wait 90 days before resubmission, and the Board should be able to vote on the submission at the April meeting. They are below the minimum requirement, but the board can vote to waive the minimum requirement if submission criteria is satisfied, including a funding plan to get them above the minimum. Ms. Moore stated that it is important not to send a chilling effect for potential applicants. Dartmouth is still in the process after three years but are getting closer, Cape Cod Regional Transit Authority may be submitting documents for 2018 as well.

Municipal Contracts

Mr. Fox reported that FCOG is ready to be approved after obtaining the required votes, and the amount to be invested is \$100,000 to start.

On a motion made by Mr. Connarton and duly seconded by Ms. Moore, the Trustees took the following action.

VOTED: To approve the Investment Agreement between the SRBTF Board and the Franklin Regional Council of Governments and to accept the Franklin Regional Council of Governments as a participating unit in the SRBTF for \$100,000.

Ms. Moore-- Yes
Mr. Connarton—Yes
Mr. Gervasio--Yes
Ms. Hedderman--Yes
Mr. Finn--Yes
Mr. Tow—Yes
Mr. Favorito--Yes

VI. Administrative Issues

A. Legislative Update

A tobacco settlement transfer of \$25,449,014.59 from the Commonwealth was received and deposited into the fund's account with PRIM pursuant to the FY17 budget.

B. OPEB Valuation

Previously covered.

C. SRBTF Calendar

Ms. Hedderman asked for the board to consider a later meeting time due to conflicts with other CTR meetings. The chair asked if the board objects to starting the meeting later. Mr. Tow stated that this would work for the next meeting, but might be harder going forward. Given no objections to changing the February start time to 10:00 am, will move forward with that time and consider further.

A schedule of meetings for calendar year 2018 is in the board packet, and the first meeting of the year will be on February 1st. The next PRIM board meeting is on February 15th.

D. Records Management

Mr. Moyer has scanned all the archived physical board records collected and turned over to him from Ms. Elizabeth Hemond of CTR. These records take up approximately 6½ boxes and are currently being stored at his desk. All contracts signed within the past six years as well as governing documents have been set aside to keep, but many of the remaining physical records could be either destroyed or stored off-site. Mr. Connarton asked if these records are governed by the Secretary of State, and Ms. Hedderman stated that there is a process to certify that this digitization meets regulations. Mr. Moyer indicated that he will follow up to get additional details.

E. Internal Controls

Ms. Moyer told the board that he is beginning work on drafting an Internal Control plan for the board. Mr. Todisco had drafted a plan when he worked for the HCST in 2006, and while many of the roles and structures have changed, it is close enough to use as a starting point. This plan should be ready for feedback and discussion at the next full board meeting in February. The Chair suggested getting input from Treasury staff on templates and language.

F. FY 2018 Budget

The Board reviewed the budget materials presented in the Board packet. Mr. Moyer noted the increase in expenses is due to payroll costs

VII. Other Items

The Chair noted the articles on OPEB reform provided to Board members in their meeting packets. Ms. Moore indicated that the federal tax reform legislation before Congress incorporates a large cut to Medicare funding, and might decrease reimbursements and subsidies and impact the Commonwealth's budget process.

Mr. Moyer asked all board members to sign the Open Meeting Law certificate of receipt and return it to him as soon as possible.

VIII. Adjournment

There being no further business, a motion was made by Mr. Connarton and duly seconded by Ms. Moore, to adjourn the meeting at 10:24am. On the motion the roll-call vote was:

Mr. Connarton--Yes

Ms. Moore-- Yes

Mr. Gervasio—Yes

Ms. Hedderman—Yes

Mr. Finn--Yes

Mr. Tow—Yes

Mr. Favorito--Yes